HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Winnipeg CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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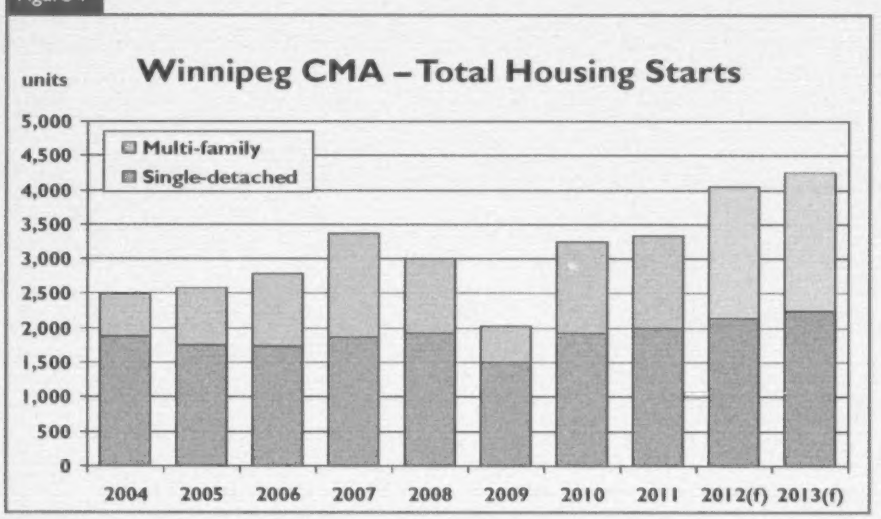
NEW HOME MARKET

Winnipeg housing starts bolstered by multi-family development

Total housing starts in the Winnipeg Census Metropolitan Area (CMA) are on pace to surpass last year's results by a wide margin. Builders are expected to start 4,050 homes by the end of 2012, a 25-year high and 22 per cent more than the 3,331 homes started in 2011. To the end of August, single-detached starts were nine per cent ahead of the pace set in 2011. The largest increase in construction, however, was on the multi-family side, where year-to-date starts were up by 74 per cent over the previous year. This pace is expected to ease over the remainder of 2012 but still result in strong annual growth.

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 17, 2012.

[2]Multiple Listing Service ® (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

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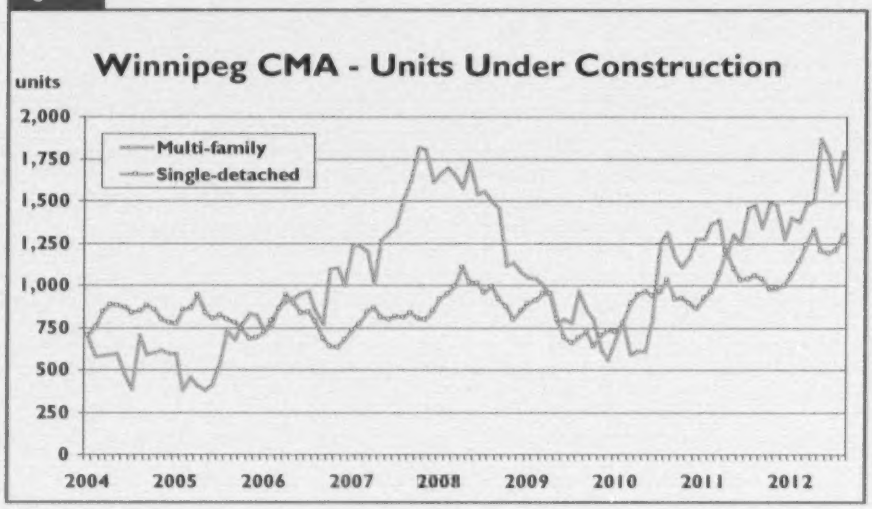
HOME TO CANADIANS

Conditions supporting housing demand will be sustained over the forecast period as new homes will be required to meet the needs of a growing population. Winnipeg continues to attract international immigrants who have helped offset inter-provincial losses and kept net migration at historically high levels. Healthy employment gains will also favour housing demand. After finishing 2011 with little job growth, average employment in Winnipeg is expected to advance two per cent in 2012 with increases in both full and part time employment. While average weekly earnings have not grown in real terms, mortgage rates are expected to remain historically low for the near term, supporting homeownership. Meanwhile, low listings in the competing resale market will push some buyers to new units to meet their housing needs. Given these factors, production levels will remain high into 2013 as builders pour foundations for 4,250 homes, rising five per cent from the previous year.

Figure 2



Source: CMHC

Steady growth for single-detached starts

Single-detached builders will surpass last year's elevated pace of construction and are expected to end 2012 with 2,150 starts. This will represent a 7.4 per cent increase over 2011 and be the highest number of starts since 1989. To the end of August this year, single-detached starts were 9.5 per cent greater than the same period in 2011.

Building on last year's elevated level of starts, the number of units under construction peaked in April 2012 at 1,329 units, almost 50 per cent higher than the previous year and greater than the five-year average of 894 units. At the end of August, total supply, which includes units under construction and in inventory, was 1,468 units, 20 per cent higher than in August 2011. This represents nine months of supply at the six-month moving average rate of absorption, higher than the seven months of supply available one year prior.

While supply levels are higher than they were in 2011, the number of completions and absorptions thus far in 2012 were almost equal. As a result, the number of complete and unoccupied homes has remained steady. There were 172 single-detached units in inventory at the end of August, four per cent more than in August 2011 but still below the five-year average of 198 units.

Moving forward, demand for new homes will be sustained by the move-up market where existing homeowners will continue to take advantage of on-going price gains in the resale market. Buyers are facing sellers' market conditions and a limited selection in the resale market due to persistently low active listings. These conditions will make purchasing a new home an attractive option to potential buyers. Gains in the number of starts will be limited next year, however, given the already elevated level of construction and the expectation of modestly higher mortgage rates. As a result, starts will rise more moderately in 2013 to 2,250 units, an increase of just under five per cent.

Growth in average new house price expected to moderate

Statistics Canada's New House Price Index (NHPI) measures the change in the price of new homes where the specifications remain the same between two consecutive periods. Winnipeg's NHPI has risen steadily by 4.8 per cent in both 2010 and 2011. To the end of July 2012, the average NHPI recorded a year-over-year increase of 4.2 per cent. The land-only component of the index has increased at a slightly higher rate of 4.6 per cent while the house-only component rose by 4.1 per cent. With Winnipeg seeing elevated levels of construction in both the residential and non-residential

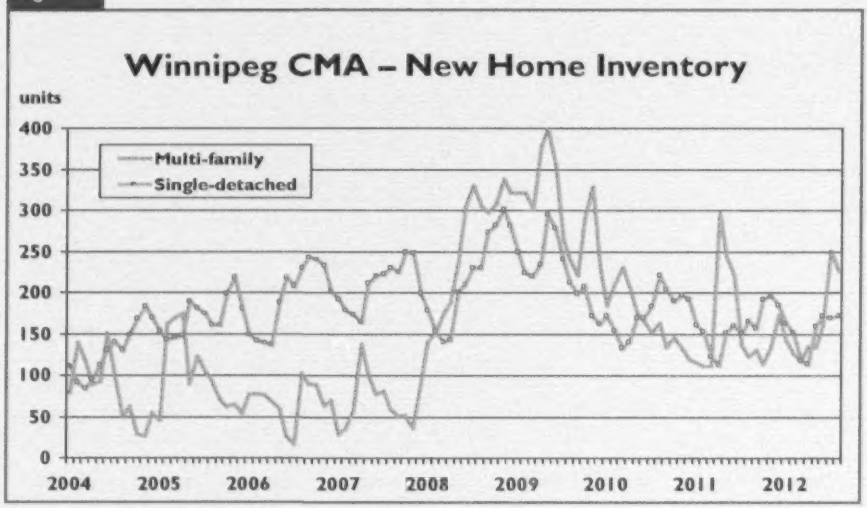
sectors over the forecast period, there will continue to be upward pressure on input costs such as labour and materials. The total average NHPI is expected to increase by four per cent in 2012 and 3.8 per cent in 2013.

The average absorbed price of a new single-detached house in the Winnipeg CMA rose five per cent in 2011 to $394,958. Price gains were supported by buyers shifting towards higher priced units with more features and amenities. The composition was similar thus far in 2012, as homes priced above $450,000 have maintained the same market share as in 2011. There have also been fewer homes absorbed at the top end of the market. There were only two homes absorbed above one million dollars in the first eight months of 2012, compared to six during the same period in 2011. Given this composition, the year-to-date average price in August 2012 was $390,378, only one per cent higher than in the same period of 2011. As a result, the average price will increase 1.3 per cent in 2012 to $400,000. With price growth in 2013 expected to be more in line with the NHPI, the average absorbed price will increase 3.8 per cent, reaching $415,000.

Multi-family starts remain elevated

Multi-family starts, which consist of semi-detached units, rows, and apartments, are on track to reach a 25-year high of 1,900 units in 2012. The needs of a growing population are driving demand. Winnipeg's demographic profile is showing a higher level of growth in younger households who have a propensity to rent or purchase a condominium and older households looking to downsize. High levels of net migration are also contributing to demand, particularly within the rental market where the vacancy rate remains persistently low. This has spurred increased rental construction, where in the first eight months of 2012 the number of rental starts was up seven per cent year-over-year at 525 units. On the condominium and ownership side, multi-family starts were up almost three-fold after eight months, numbering 830 units. As a result, unlike the last three years which have seen the majority of multi-family starts destined for the rental market, this year the majority will be condominiums.

Figure 3

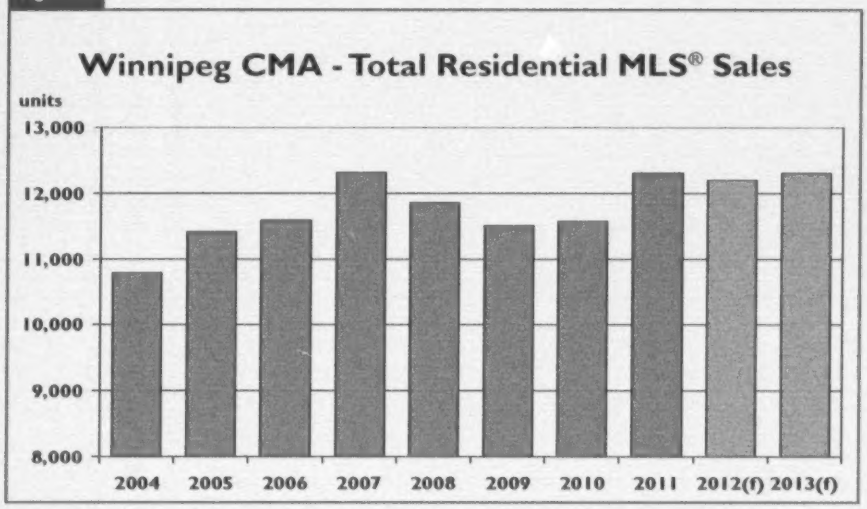


Source: CMHC

There has been a 45 per cent increase in multi-family completions during the first eight months of 2012, while absorptions have increased 26 per cent over the same period. As a result, the inventory of complete and unoccupied units increased to 227 units in August, 85 per cent higher than one year prior. This surpasses the five-year average of 193 units and represents 2.4 months of supply at the six-month moving average rate of absorption. Despite the current high levels of construction, there is limited risk in seeing inventories rise as projects reach completion. At the end of August, 148 or 65 per cent of the units in inventory were for the rental market. It is unlikely this will inhibit construction in 2013, as rental units are generally absorbed quickly given the low vacancy rate environment. On the condominium side, inventories remain tempered as absorptions are trending higher.

With inventories remaining in check despite elevated levels of construction, builders will be encouraged to start new units in 2013 to meet demand. In addition, projects announced for the city's downtown under recent government incentive programs will continue to materialize in the coming months. As a result, multi-family construction will rise slightly to 2,000 units in 2013.

Figure 4



Source: CREA, CMHC Forecast (f)

RESALE MARKET

Resale transactions to remain elevated

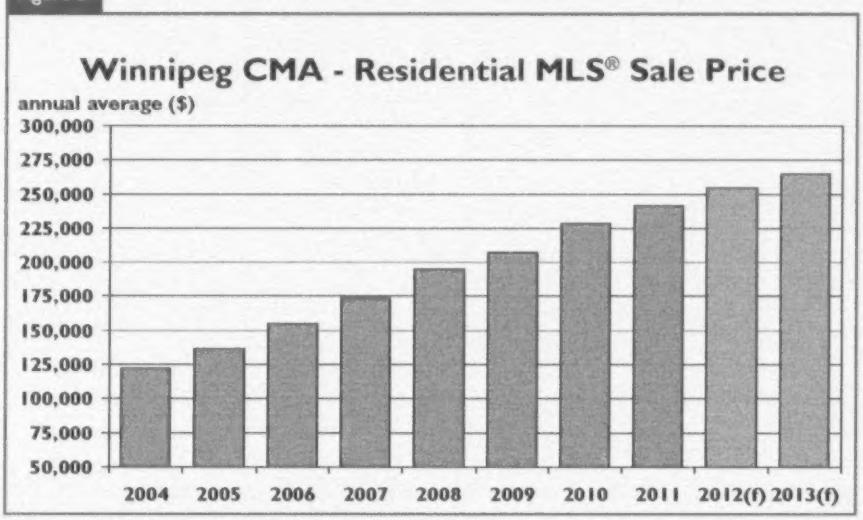
Despite strong job growth, net migration, and low mortgage rates, sales of existing homes in Winnipeg have not registered significant gains in 2012. To the end of August, each month of 2012 with the exceptions of April and May have posted year-over-year declines and year-to-date sales are ahead by only a fraction of a per cent. The amount of supply available remains historically low, restricting choice for those in the market for a resale home. As a result, sales are on pace to finish the year with 12,200 units, down slightly from the 12,297 registered in 2011.

Looking forward, several factors will combine to keep sales at current levels. On the upside, Winnipeg has experienced several years of rising net migration, and many new immigrants are making their way into homeownership. Also, employment gains experienced this year are expected to continue into 2013 and will encourage demand among first-time and move-up buyers. Countering these positives, Winnipeg will continue to lose residents to other provinces weakening net migration, and rising house prices and carrying costs will inhibit demand. On balance, sales will increase slightly by 0.8 per cent to total 12,300 transactions in 2013.

Price gains to moderate

Despite a levelling of sales, sellers' market conditions persist in Winnipeg. Consequently, the rate of price growth in 2012 will equal that of 2011, increasing 5.6 per cent to an average of $255,000. As of August 2012, new listings were up 1.6 per cent and the annual cumulative average number of active listings was also up a similar amount. As a result, the sales-to-new listings ratio has declined from 75 per cent in August 2011 to 72 per cent in 2012. With continued price gains encouraging existing homeowners to list, the trend towards a higher number of listings should continue into 2013, easing upward pressure on prices. Under these conditions, expect price gains to moderate to 3.9 per cent in 2013 to an average of $265,000.

Figure 5



Source: CREA, CMHC Forecast (f)

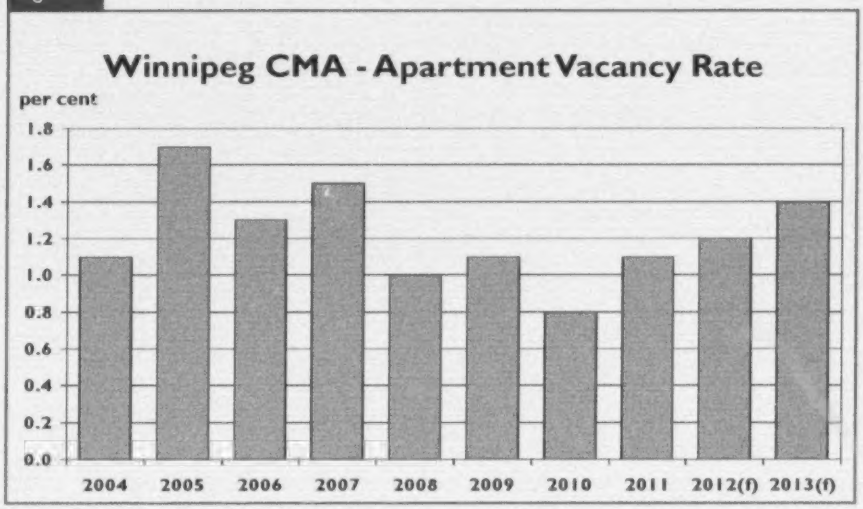
RENTAL MARKET

Vacancy rates to remain low

Heightened demand in Winnipeg's rental market has kept the apartment vacancy rate below two per cent since 2001. CMHC's latest Rental Market Survey in April 2012 revealed a vacancy rate of 1.2 per cent, marking an increase from 0.7 per cent one year earlier. October 2012's Rental Market Survey should indicate a similar vacancy rate.

High net migration and a growing number of Winnipeggers reaching the household formation stage are providing a steady stream of new renters. Meanwhile on the supply side, the number of units in Winnipeg's rental market universe continues to decline. Rental starts have been strong, topping 800 units in both 2010 and 2011 however additions are not enough to offset losses to the universe as a result of conversion to condominium or demolition. The prime factor leading to modestly higher vacancy rates is the continued movement to home ownership, as stable employment, rising earnings, and low mortgage rates will encourage more renters to purchase a home. As a result of more renters vacating their suites, the vacancy rate will rise slightly to 1.4 per cent in October 2013.

Figure 6



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Rents to increase

Each year, the Residential Tenancies Branch sets a rent increase guideline which applies to the majority of Winnipeg's rental apartment stock. In 2012, the guideline limited landlords to a one per cent increase. This same guideline amount will stand in 2013. Average rents, however, are forecast to increase at a rate greater than the guideline for several reasons. Landlords are able to apply for permission to increase rents above the guideline to cover costs. In addition, newly constructed rental units are exempt from the guideline for a period of time, as are units that have undergone renovation. As a result, an increasing proportion of units are exempt from the guideline. Newly constructed and rehabilitated units added to the universe over the next year will command higher rents, which will effectively push up the overall average in excess of the guideline. The average two-bedroom rent will rise from $875 per month in October 2011 to $915 in 2012 and $955 in 2013.

ECONOMIC OUTLOOK

Job growth to remain positive

Employment levels in the Winnipeg CMA have rebounded in 2012 after finishing 2011 virtually unchanged from 2010. To the end of August 2012, the number of people employed recorded a year-over-year increase of 2.3 per cent on a seasonally adjusted basis, representing 9,500 new jobs. Gains were made in both full-time and part-time employment with younger workers between 15 and 24 years of age posting the greatest increase at 5.9 per cent. The increase in employment within this age bracket will have a positive impact on demand for housing in both the rental and first-time buyer markets. Workers between the ages of 45 and 64 also saw an increase in employment of 3.5 per cent, while employment for those workers between 25 and 44 was virtually unchanged. Overall, average employment in Winnipeg is expected to post a gain of two per cent this year and further increase 1.3 per cent in 2013.

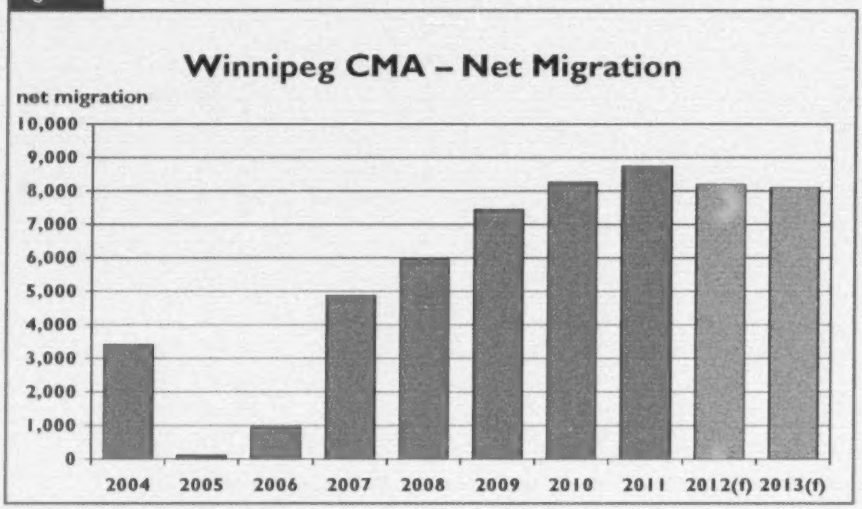
The value of non-residential building construction in the Winnipeg CMA was up 20 per cent in the first half of 2012. Gains were mainly in the institutional and government sectors with an increase of 35 per cent, followed by a gain of 18 per cent in the commercial sector. After posting

strong gains in 2011, industrial building construction declined by 30 per cent over the same period. Several major investment projects underway in the Winnipeg CMA are nearing completion. However, there are other recently announced projects in the planning stages expected to break ground in 2013 keeping employment high in this sector.

On the provincial scale, consumer spending has moderated posting an increase of 2.7 per cent at the mid-point of 2012, compared to an increase of four per cent in mid 2011. Growth in the value of manufacturing shipments has also moderated, increasing 2.7 per cent in the first seven months of 2012 compared to an increase of 8.2 per cent over the same period of 2011. As Manitoba's primary export market is the United States, future exports will be impacted by their slow economic recovery and a continued strong Canadian dollar. However, gains are expected in the manufacturing of transportation goods where several large orders have recently been announced for the replacement of aging equipment in the U.S.

Thanks to continued strong international immigration, Manitoba saw a net gain of 9,948 new migrants in 2011, a decline of nine per cent from the previous year. Much of the decline was due to interprovincial losses, where 4,356 more people left the province than moved here. On the positive side, net international immigration reached a high of 14,124 persons, an increase of one per cent over the previous year. Locally, the Winnipeg CMA gained 8,737 people in 2011, an increase of almost six per cent over the previous year. This raised the population estimate for the Winnipeg CMA to 762,759 people in 2011, representing a growth rate of 1.5 per cent.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

After the first quarter of 2012, Manitoba's net migration increased 19 per cent, thanks to fewer interprovincial losses compared to the first quarter of 2011. While the successful Provincial Nominee Program will keep the number of international immigrants elevated in 2012 and 2013, it is expected that interprovincial losses will also increase. For the Winnipeg CMA, this will result in a levelling off in net migration at 8,200 persons in 2012 and 8,100 in 2013.

MORTGAGE RATE OUTLOOK

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Winnipeg CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	11,509	11,572	12,297	12,200	-0.8	12,300	0.8
MLS® New Listings	15,478	15,975	16,385	16,400	0.1	16,900	3.0
MLS® Average Price ($)	207,341	228,706	241,408	255,000	5.6	265,000	3.9
New Home Market							
Starts:							
Single-Detached	1,505	1,921	2,002	2,150	7.4	2,250	4.7
Multiples	528	1,323	1,329	1,900	43.0	2,000	5.3
Starts - Total	2,033	3,244	3,331	4,050	21.6	4,250	4.9
Average Price ($):							
Single-Detached	369,320	376,625	394,958	400,000	1.3	415,000	3.8
Median Price ($):							
Single-Detached	336,960	342,160	357,215	370,000	3.6	383,000	3.5
New Housing Price Index (% chg.)	2.5	4.8	4.8	4.0	-	3.8	-
Rental Market							
October Vacancy Rate (%)	1.1	0.8	1.1	1.2	-	1.4	-
Two-bedroom Average Rent (October) ($)	809	837	875	915	-	955	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	401,100	408,500	408,800	417,000	-	422,500	-
Employment Growth (%)	0.0	1.8	0.1	2.0	-	1.3	-
Unemployment rate (%)	5.4	5.7	5.8	5.6	-	5.6	-
Net Migration	7,443	8,262	8,737	8,200	-6.1	8,100	-1.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 17, 2012.

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